



CITY OF GLENDALE, CALIFORNIA  
Management Services Department  
INTERNAL AUDIT

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September 6, 2013

REPORT #: 2014-03

Rafi Manoukian, City Treasurer  
Office of the City Treasurer

Dear Rafi,

Enclosed is the final audit report for the City Treasurer's Office Operational Audit. Internal Audit would like to thank you and your staff for the support and assistance provided to us during the audit.

Should you have any questions, please feel free to contact Natalie Minami-Valdivia or myself.

Thank you,

A handwritten signature in cursive script, reading "Michele Flynn".

Michele Flynn,

City Auditor

Enclosure

CC: Yasmin Beers, Assistant City Manager  
Robert Elliot, Director of Finance  
Guia Murray, Assistant City Treasurer  
Scott Ochoa, City Manager  
City Council  
Audit Committee

# **City Treasurer's Office Operational Audit**

**September 6, 2013**

## Background

In accordance with Internal Audit's fiscal year 2012-13 audit plan and at the request of the City Treasurer, Internal Audit performed an operations audit of the City Treasurer's Office. The City of Glendale's City Treasurer is an elected position. Rafi Manoukian, ran and successfully competed in the Glendale 2013 elections held on April 2, 2013 and was sworn into the City Treasurer's position on April 15, 2013.

The mission of the City Treasurer states the following:

The City Treasurer, in his most important role as Investment Manager of the City's funds, strives to maximize yield without compromising safety and liquidity.

The responsibilities of the department include the following:

- Investment Portfolio Management
- Bank Relationship Management
- Trustee Responsibilities

This particular audit primarily focused on the Bank Relationship Management. For this function, the City Treasurer acts as the banker for the City. The office collects revenues from various City departments daily and combines them into the bank deposits which are transported to the bank by armored courier. The office manages the City's bank relationship, which consists of bank reconciliations, contract administration, and daily treasury management.

The objective of the audit was to perform the following:

- Obtain an understanding of key operational and administrative functions within the department.
- Determine the efficiency of effectiveness of departmental operations.
- Determine the accuracy, timeliness, and completeness of key departmental functions including deposits, cash balancing, reconciliations, cash management, and investments.
- To determine functions and processes are properly segregated.

## **Scope and Procedures**

The scope of this audit included the current key operational and administrative areas of the City Treasurer's Office. These areas of responsibilities include the receipt of all City funds, management of the City's Bank accounts, management of the City's Investment Portfolio, reporting investment activity to the City Council, trustee for various City Street Improvement Bonds, banker for the City, maintaining the City banking relationship.

In order to accomplish the audit objectives noted above, Internal Audit performed the following:

- Obtained and reviewed the City Charter, City Treasurer's Office's responsibilities by position, City of Glendale Investment Policy, Investment Portfolio Review as of June 30, 2012, Quarterly Report of City Investments as of March 31, 2013, and Cash Handling Guidelines.
- Conducted interviews and performed process walk-throughs with the City Treasurer's Office staff.
- Performed detailed testwork of a sample of bank reconciliations and program security access.

## **Summary of Results**

As a result of the audit procedures performed, nine improvement opportunities related to the cash handling guidelines, tracking of user accesses, deposit receipting processes, bank reconciliation processes, and staffing were identified. The recommendations included, but were not limited to, updating the cash handling guidelines, improving system user access controls, improving timeliness of bank reconciliations and resolution of reconciling items, and requiring a background check for all individuals prior to assuming their assignment within the City Treasurer's Office.

Item	Observation/Risk	Recommendation	Management Response
<b>General</b>			
1.	<p>Based upon discussions regarding system accesses to City Treasurer's Office administered computer programs and detailed testwork performed, we noted the following:</p> <p>-A Request Form for User Access to Cash Pro, Sympro, Data Feed, and/or Bloomberg does not exist.</p> <p>-A log of the employees that have been granted access to systems other than Cash Pro is not maintained and/or periodically reviewed.</p> <p>-All employees granted access to the Cash Pro System have the ability to export the Cash Pro Security Certificate to any computer.</p> <p>-User access is not revoked in a timely manner in the event of employee turnover or change in job responsibilities.</p> <p style="text-align: center;">* * *</p> <p>Failure to document approved access to City Treasurer's Office administered computer programs, limit the portability of the banking access, and/or revoke access in a timely manner increases the risk of unauthorized access to the City's banking information.</p>	<p>It is recommended that the City Treasurer's Office management consider the following:</p> <p>-Create a form template to request and track access granted to the City Treasurer's office exclusive systems. A copy of the form should be forwarded to the applicable department for recordkeeping purposes.</p> <p>-Determine the feasibility of restricting security certificates from being exported by employees with user access to perform bank transactions.</p> <p>-Request to be added to the employee terminations distribution list.</p>	<p>Management agrees with the recommendation. As additional controls would further enhance security, the City Treasurer's Office will perform the following:</p> <p>-Prepare a form template to request system access and to track all system users.</p> <p>-Work with the Information Services Department and the bank to determine the feasibility of restricting security certificates from being exported by employees with user access to perform banking transactions.</p> <p>-Request Human Resources to add the City Treasurer's Office to the distribution list of terminated employees to ensure that system access is revoked in a timely manner.</p> <p>The anticipated completion date is September 30, 2013.</p>

Item	Observation/Risk	Recommendation	Management Response
2.	<p>City Treasurer's Office Cash Handling Guidelines are not up-to-date.</p> <p style="text-align: center;">* * *</p> <p>Failure to maintain up-to-date policies and procedures increases the risk of inconsistent processes and/or interruption of business processes in the event of employee turnover.</p>	It is recommended that the Cash Handling Guidelines be updated to reflect current practices.	Management agrees with the recommendation and is in the process of updating the Cash Handling Guidelines. The anticipated completion date is December 31, 2013.
3.	<p>The City Treasurer's office has not gone to Council with a request to destroy records since 2000. City Council approved the destruction of various documents dated June 30, 1995 and earlier.</p> <p style="text-align: center;">* * *</p> <p>Failure to identify and destroy City Treasurer records increases the risk of non-conformance with City policy and increases risk exposure.</p>	It is recommended that the City Treasurer's Office work with the City Attorney's office to determine the City Treasurer's retention policy and that a request for destruction be prepared and taken to City Council for review and approval.	Management agrees with the recommendation and has obtained the appropriate retention policy from the City Attorney's office. The City Treasurer's office will prepare a request for destruction to be taken to the City Council for review and approval. The anticipated completion date is December 31, 2013.

Item	Observation/Risk	Recommendation	Management Response
<b>Safeguarding of Assets</b>			
4.	<p>Based upon walk-throughs performed with City Treasurer's Office management, it was noted that there were opportunities for improvement related to the safeguarding of assets. Specific details related to these observations were discussed with City Treasurer's Office management.</p> <p style="text-align: center;">* * *</p> <p>Failure to most effectively safeguard the City's deposits increases the risk of misappropriation.</p>	<p>It is recommended that the City Treasurer's office determine the feasibility of enhancing the safeguarding of assets by implementing the security measures discussed.</p>	<p>Management agrees with the recommendation and is in the process of evaluating and making improvements with regards to the safeguarding of assets. The anticipated completion date is December 31, 2013.</p>
<b>Deposit Receipting</b>			
5.	<p>Deposits received after the counter hours of Monday - Friday 8:30 a.m. - 2:30 p.m. are not verified in the presence of the individual making the deposit.</p> <p style="text-align: center;">* * *</p> <p>Failure to verify the deposit amount to the Treasurer's Receipt at the time of deposit increases the risk of unidentified discrepancies in the amounts deposited.</p>	<p>It is recommended that all deposits accepted by the City Treasurer's Office be verified in the presence of the individual making the deposit upon receipt.</p>	<p>Management agrees with the recommendation and has implemented a procedure to ensure that all cash received after 2:30 is counted back to the department upon being presented. Management is also considering revising its current business practice of accepting deposits after the counter closes in order to provide staff the necessary time to perform other treasury functions. The anticipated completion date is September 30, 2013.</p>

Item	Observation/Risk	Recommendation	Management Response
<b>Bank Reconciliations</b>			
6.	<p>The City of Glendale has not issued a request for proposal for banking services since 1998.</p> <p style="text-align: center;">* * *</p> <p>Failure to periodically issue a Request for Proposal increases the risk that the City foregoes the potential for identifying financial institutions with more services and/or lower fees.</p>	<p>It is recommended that the City of Glendale consult with the City Attorney's Office to determine if any request for proposal requirements exist for the City's financial services vendor.</p>	<p>Management agrees with the recommendation, but has determined that this is not an appropriate time due to the following:</p> <ul style="list-style-type: none"> <li>• The City Treasurer's Office recently experienced a high employee turnover. The new staff is in training. Changing bank systems and services would add to the workload of the office.</li> <li>• The impending implementation of the Bank of America cash management tool.</li> <li>• The City Treasurer's Office will extend the bank services agreement this year and prepare a request for proposal for banking services within the next three years.</li> </ul>



Item	Observation/Risk	Recommendation	Management Response
7.	<p>With the exception of GWP, all merchant fees are currently being charged to the City's general demand account. Based upon a review of the April activity charged in early May, the Parking Fund incurred credit card merchant fees totaling \$10,617.41 of the total \$16,400.62 (65%) non-GWP merchant fees.</p> <p style="text-align: center;">* * *</p> <p>Failure to properly charge and account for merchant fees could result in the misstatement of expenses within the fund and/or expense accounts.</p>	<p>It is recommended that the City Treasurer's Office evaluate the merchant fees and determine the feasibility of charging and accounting for these fees within the appropriate fund and/or expense accounts.</p>	<p>Management agrees with the recommendation and will work with the Finance Department to determine the feasibility of charging and accounting for merchant fees with the appropriate fund and/or expense accounts. The anticipated completion date is December 31, 2013.</p>

Item	Observation/Risk	Recommendation	Management Response
8.	<p>Based upon a review of the bank reconciliations, we noted the following:</p> <ul style="list-style-type: none"> <li>Bank reconciliations and their related adjusting entries are not performed in a timely manner.</li> <li>Bank accounts are maintained that should be closed due to inactivity.</li> <li>Although a review is performed, there is no documentation of the completion date, supervisory review and/or approval, and/or the date the review was completed evidenced for the bank reconciliation.</li> </ul> <p style="text-align: center;">* * *</p> <p>Failure to perform, document, prepare adjusting entries, identify inactive accounts, and/or evidence supervisory review for bank reconciliations in a timely manner increases the risk of inaccurate cash account balances, potential delays in error detection, and unnecessary bank fees.</p>	<p>It is recommended that the City Treasurer's office perform the following:</p> <ul style="list-style-type: none"> <li>Ensure that bank reconciliations and related adjusting entries are completed within a management specified timeframe (i.e. within two weeks of the month-end).</li> <li>Monitor bank activity and identify accounts eligible to be closed due to inactivity. Specifically for the bail account, it is recommended that the City Treasurer's Office work with Finance to resolve the outstanding check issue and close the account.</li> <li>Evidence the preparer's name, date prepared, reviewer's signature, and date reviewed on the hardcopy bank reconciliation report.</li> </ul>	<p>The City Treasurer's Office experienced a high employee turnover and the new staff is currently in training. The Finance and City Treasurer management agree with the recommendation and will perform the following:</p> <ul style="list-style-type: none"> <li>Ensure that bank reconciliations are completed within 30 days after the reconciling month and adjusting journal entries are performed more timely.</li> <li>Work with Finance to close the Bail Account and monitor and identify inactive accounts that may be eligible to be closed on a going forward basis.</li> <li>Attach a cover page to the copy of the bank reconciliation report that evidences the preparer's name, preparation date, reviewer's signature, and review date. The City Treasurer's Office will work with the Information Services Department to determine a means to electronically approve and date the bank reconciliations.</li> </ul>

The anticipated completion date is September 30, 2013.

Item	Observation/Risk	Recommendation	Management Response
<b>Staffing</b>			
9.	<p>Live Scan background checks and/or pre-employment screenings are not required and/or performed on all City Treasurer's Office staff prior to their employment. Specifically employees from the Verdugo Job Center GAIN program and/or the Glendale Youth Alliance that are temporarily assigned to the City Treasurer's Office.</p> <p style="text-align: center;">* * *</p> <p>Failure to perform a background check on each employee prior to their employment increases the potential risk of theft.</p>	<p>It is recommended that City Treasurer's Office determine the feasibility of requiring all employees submit to a Live Scan background check and/or pre-employment screening prior to being permitted to work within the City Treasurer's Office.</p>	<p>Management agrees with the recommendation. Although these participants are not assigned any cash responsibilities, the City Treasurer's Office will work with the Human Resources Department, the Verdugo Job Center, and/or the Glendale Youth Alliance to implement a procedure requiring a Live Scan background check and/or pre-employment screening on all individuals to be employed in the City Treasurer's Office.</p> <p>Management further believes that all participants working in City departments should go through a background check and/or pre-employment screening, especially those being given cash handling responsibilities or when handling sensitive data and/or information.</p>